

## Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-08  
NSC-05 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00  
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04  
SIL-01 IGA-02 FEA-01 INT-05 OES-07 /104 W  
-----061476 100207Z/21

R 100117Z AUG 77

FM AMEMBASSY TOKYO  
TO SECSTATE WASHDC 23  
TREASURY DEPT WASHDC  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME

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USEEC

USOECD ALSO FOR EMBASSY

E.O. 11652: N/A

TAGS:EFIN, JA

SUBJECT: ELABORATION OF NEW JAPANESE ECON MEASURES

1. SUMMARY: LATEST SIX-POINT ECONOMIC PROGRAM (SUMMARIZED TOKYO 11760) IS DESIGNED PRIMARILY TO REINFORCE BUSINESS CONFIDENCE WHILE AWAITING MORE IMPORTANT, PROBABLY MAJOR, STIMULUS PACKAGE TO BE ANNOUNCED IN LATE AUGUST. WHILE REST OF GOVT SEEKS TO PLAY DOWN IMPORTANCE OF INTERIM PROGRAM, MITI HAS GIVEN DETAILS OF ELEMENTS OF INTEREST TO ITSELF, INCLUDING A SURPRISING EMPHASIS ON PROMOTION OF EXPORTS OF INDUSTRIAL PLANTS. END SUMMARY.

2. IN RESPONSE TO STRONG PRESSURE FROM LDP AND BUSINESS CIRCLES,  
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GOVT AND LDP LEADERS AUGUST 3 AGREED TO AN IMMEDIATE SIX-POINT ECONOMIC INITIATIVE. THE NEW ANNOUNCEMENTS ARE PRIMARILY STOPGAP MOVES DESIGNED TO CALM CONCERNS ABOUT THE ECONOMIC SITUATION. BECAUSE THE GOVT HAD EARLIER DECIDED TO POSTPONE DECISIONS ON FURTHER ECONOMIC STIMULUS UNTIL LATE AUGUST, THE NEW PROGRAM HAS MOSTLY BEEN PLAYED DOWN PUBLICLY, HOWEVER, MITI HAS RELEASED DETAILS OF THE PROGRAM, HERALDING THE STEPS IT WOULD TAKE TO

PROP UP BUSINESS CONFIDENCE AND SUSTAIN ECONOMIC RECOVERY. SIX ITEMS WERE INCLUDED IN THE NEW PROGRAM:

A. THE GOVT ANNOUNCED THAT IT WOULD CONTINUE TO PRESS ITS EFFORTS TO ACCELERATE THE PUBLIC SPENDING PROGRAMS THAT HAVE ALREADY BEEN ANNOUNCED. TO REASSURE BUSINESS THAT THIS PROGRAM WAS PROCEEDING WELL, THE GOVT ANNOUNCED THAT BY THE END OF JUNE 50.2 PERCENT OF CONTRACTS PLANNED FOR FY 77 HAD ALREADY BEEN LET AND PREDICTED THAT, HENCE, THE TARGET OF CONTRACTING FOR 73 PERCENT OF ALL PUBLIC WORKS CONTRACTS BY END SEPTEMBER WOULD BE EASILY MET. THE LAG BETWEEN CONTRACTING AND EXPENDITURES HAS PROVOKED COMPLAINTS FROM BUSINESSMEN THAT THE GOVT PROGRAM WAS SLIPPING AND THIS ANNOUNCEMENT WAS DESIGNED TO ALLAY SUCH FEARS.

B. THE GOVT WILL TAKE STEPS TO PROMOTE ACCELERATED INVESTMENT BY THE ELECTRIC POWER INDUSTRY BY REQUESTING THAT ANOTHER YEN 130 BILLION OF CONTRACTS PROGRAMMED TO BE LET IN FUTURE FISCAL YEARS BE BROUGHT FORWARD INTO FY 77. THIS FOLLOWS A SIMILAR ACTION IN LATE 1976 REQUESTING ELECTRIC COMPANIES TO MOVE UP FROM FY 78 AND SUBSEQUENT YEARS YEN 570 BILLION IN CAPITAL EXPENDITURES. CAPITAL SPENDING IN THE ELECTRIC GENERATING INDUSTRY HAS BEEN PARTICULARLY STRONG, WITH SUCH EXPENDITURES TOTALING YEN TWO TRILLION IN FY 76 AND EXPECTED TO REACH YEN TWO-AND-ONE-HALF TRILLION IN FY 77. THE ACCELERATED CONTRACTING THUS IS A SIGNIFICANT FRACTION OF TOTAL FY 77 CAPITAL EXPENDITURES IN THE INDUSTRY.

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C. CONSTRUCTION OF RESERVE OIL DEPOTS WILL BE PROMOTED IN ORDER TO ATTAIN THE TARGET OF A 90-DAY STOCKPILE. EXPENDITURES BY INDIVIDUAL OIL COMPANIES ON SUCH DEPOTS IN FY 1977 ARE ALREADY PROGRAMMED AT YEN 24,600 MILLION AND THE GOVT WILL TAKE STEPS TO ENSURE THAT THIS TARGET IS MET. ALSO, CONTRACTS FOR FOUR ADDITIONAL JOINT VENTURE FACILITIES IN NIIGATA WILL BE LET IN AUG, AND FORMATION OF JOINT VENTURES IN HOKKAIDO AND SAIKAI WILL BE ACCELERATED. THE 90-DAY STOCK-PILE RESERVE IS AN AGREED TARGET OF THE INTERNATIONAL ENERGY AGENCY, AND IS BACKED UP BY A JAPANESE LAW REQUIRING THE ATTAINMENT OF THE TARGET BY MARCH 31, 1980. A MITI SOURCE TOLD US, HOWEVER, THAT THE INTENT OF THE STOCKPILE FACILITIES PROGRAM IS NOT DIRECTLY AIMED AT CONCERNS ABOUT MEETING THE TARGET DATE, BUT RATHER AT ASSISTING THE DOMESTIC ECONOMY, PARTICULARLY THE STEEL INDUSTRY, BY ACCELERATING THE CONSTRUCTION OF THE NECESSARY STORAGE TANKS AND OTHER FACILITIES NEEDED FOR THE STOCKPILE.

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R 100117Z AUG 77

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D. PLANT EXPORTS WILL BE PROMOTED. MITI ANNOUNCED A TARGET OF INCREASING PLANT EXPORTS IN FY 77 BY ABOUT 100 PCT OVER THEIR FY 76 LEVEL OF 8 BILLION DOLLARS. TO MEET THIS GOAL, MITI CALLED FOR QUOTE ENERGETIC ECONOMIC DIPLOMACY UNQUOTE AND QUOTE MORE ELASTIC UNQUOTE APPLICATION OF EX-IM BANK AND MITI RULES ON PLANT EXPORT FINANCE AND INSURANCE. THIS LAST PHRASE HAS BEEN INTERPRETED TO MEAN THAT ADEQUATE CREDIT WOULD BE ALLOCATED TO MEET THE TARGETED LEVEL OF PLANT EXPORTS. ALSO, THE OVERSEAS ECONOMIC COOPERATION FUND (OECF) IS TO OFFER TRADE CREDITS, AND THE OECF WILL JOIN EX-IM BANK IN OFFERING JOINT FINANCING, TO MEDIUM-INCOME AS WELL AS LOW-INCOME NATIONS FOR INFRASTRUCTURE DEVELOPMENT. COMMENT: THE TARGET FOR PLANT EXPORTS IS IN EXPORT CONTRACT CERTIFICATION TERMS. THE PLANNED DOUBLING OF PLANT EXPORTS IS IN LINE WITH --BUT THE HIGH END OF -- GOALS MITI SET IN JANUARY WHEN IT SUGGESTED A TARGET OF 50 PERCENT TO 100 PERCENT INCREASE IN PLANT EXPORTS IN FY 77. ACTUAL RESULTS IN FY 76 FELL SHORT OF LIMITED OFFICIAL USE

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MITI'S EARLIER 10 BILLION DOLLARS PROJECTION AND THERE HAVE BEEN REPORTS OF A RECENT SLOWDOWN IN GROWTH OF PLANT EXPORT ORDERS. MITI'S CONTINUING EMPHASIS ON ITS GOAL FOR PLANT EXPORTS SHOWS STARTLING INSENSITIVITY TO CONCERNs ABOUT JAPAN'S CURRENT ACCOUNT SURPLUS. THIS CONCENTRATION ON PLANT EXPORTS IS

BASED PARTLY ON THE FOLLOWING ASSUMPTIONS:

- (1) PLANT EXPORTS BY THEIR NATURE WILL NOT PROVOKE THE ADVERSE FOREIGN REACTION THAT EXPORT OF CONSUMER PRODUCTS HAS EVOKED.
- (2) JAPAN SHOULD BE DEVELOPING A COMPARATIVE ADVANTAGE IN KNOWLEDGE - INTENSIVE INDUSTRY AS A MEANS FOR JAPAN TO SHIFT AWAY FROM RESOURCE-INTENSIVE INDUSTRIES.
- (3) SOME 40 PERCENT OF JAPANESE PLANT EXPORTS ARE TO OIL-EXPORTING COUNTRIES, AND EXPANSION OF THESE EXPORTS WILL HAVE NO ADVERSE EFFECT ON OTHER COUNTRIES' PAYMENTS PROBLEMS.

E. EXPANSION OF FOREIGN AID. THIS IS TO BE REALIZED

BY (A) EARLY DISBURSEMENT OF COMMITTED BUT STILL UNDISBURSED COMMODITY AID (TOTALING YEN 120 BILLION) AND ADDITIONAL (UNSPECIFIED) COMMODITY AID COMMITMENTS, AND (B) FULFILLMENT OF PART OF JAPAN'S PROMISE GIVEN AT THE MAY 1977 PARIS CONFERENCE OF INTERNATIONAL ECONOMIC COOPERATION TO EXTEND ABOUT YEN 33 BILLION OF AID TO DEVELOPING NATIONS THROUGH PROPOSED SPECIAL ACTION FUND.

F. SPECIAL MEASURES WILL BE TAKEN TO ASSIST SPECIFIC INDUSTRIES HARD HIT BY STRUCTURAL DIFFICULTIES. THESE WILL INCLUDE PERMISSION FOR TEMPORARY CARTEL ARRANGEMENTS AND FOR FINANCIAL ASSISTANCE AND OTHER HELP IN MAKING STRUCTURAL ADJUSTMENTS TO NEW BUSINESS LINES. SMALL BUSINESSES ADVERSELY AFFECTED BY YEN APPRECIATION WILL ALSO BE MADE ELIGIBLE FOR SPECIAL ASSISTANCE

WITH AN ADDITIONAL YEN 25 MILLION BEING MADE AVAILABLE  
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FOR THIS PURPOSE IN FY 77 THROUGH GOVT FINANCING  
INSTITUTIONS.

COMMENT: MITI HAS MANAGED TO GENERATE A BIT OF FANFARE ABOUT THE IMMEDIATE STEPS, DOUBTLESSLY SOMEWHAT TO THE DISMAY OF OTHER GOJ AGENCIES, WHO HAVE AVOIDED PLAYING UP THE CURRENT SIX-STEP PROGRAM. ON THE OTHER HAND INDICATIONS AND HINTS BECOME MORE PROFUSE THAT THERE WILL BE AN END-AUGUST PROGRAM AND THAT IT WILL BE A MAJOR PROGRAM.  
MANSFIELD

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## Message Attributes

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